

Date: April 19, 2016

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Reginald J. Johnson, Director
Department of Community Development
Subject: Construction/Permanent Financing Loan Documents with Southside Revitalization Phase II Limited Partnership for the Phase II Multi-Family Construction at Southside East (The Lofts at Southside)

Executive Summary

On May 4th, 2015, City Council voted to authorize the City Manager to issue a commitment letter to Southside Revitalization Phase II Limited Partnership to provide up to \$3,800,000 in loan funds for the second phase of mixed-income rental development on the former Rolling Hills site. The commitment letter would be included as part of a Low Income Housing Tax Credit application to the North Carolina Housing Finance Agency for 2015 federal tax credits. Included in the \$3,800,000 was a previously approved predevelopment loan with Southside Revitalization Phase II Limited Partnership in the amount of \$500,000, which allowed the Limited Partnership to begin predevelopment activities for the Phase II site. As a result of the application process, the Limited Partnership was awarded an annual allocation of 2015 tax credits in the amount of \$805,468.00 for a period of 10 years, which equates to approximately \$8,135,226.00 in equity for the Phase II vertical construction project or approximately 55% of the construction cost. The Phase II site will consist of 85 multi-family rental units to be constructed on approximately 6 acres with 58 of the units being affordable to households earning 60% or below the Area Median Income.

Recommendation

The Department of Community Development recommends that City Council:

Authorize the expenditure of up to \$3,300,000 in HOME Investment Partnership funds (HOME) for vertical construction activities for Phase II of Southside East,

Authorize the City Manager to execute a Construction/Permanent HOME Investment Partnership Loan Agreement with the Southside Revitalization Phase II Limited Partnership in an amount up to \$3,300,000; and

Authorize the City Manager to modify the loan agreements and to execute such other non-loan related documents as necessary and as required by other lenders and the investor (including but not limited to an intercreditor agreement and a disbursing agreement) so long as they do not change the structure of the deal, increase the dollar amount or lessen the obligations of Southside Revitalization Phase II Limited Partnership to the City.

Background

On June 20, 2012, City Council approved a Master Development Agreement (MDA) with McCormack Baron Salazar, Inc. (MBS) that established the roles and responsibilities of the City and MBS for the redevelopment of the former Rolling Hills site. The MDA is the overarching governing document that specifies the terms of all individual loans and grant agreements, the provision of the land, deeds of trust, promissory notes, budgets, development schedules, income guidelines, tenant eligibility, phase maps and any additional information that is integral to this project, and most specifically, the number and type of low and moderate housing units obtained in return for the City's subsidy. It also specifies the responsibilities of the City and of MBS as the project developer for the first two phases, including the terms for disbursement of funds during the pre-development and construction phases.

The second phase of development will consist of 85 multi-family units with 58 of the units being affordable to households earning 60% or below of the Area Median Income (AMI). There are 12 buildings with the number of units ranging from 3-10 units per building (street scene elevations attached). The buildings will be of similar design of the multi-family residential units in Phase I. The Phase II development will share the amenities, pool, community room, computer lab and any additional resources provided in the Phase I effort. On the affordable side, there are 25 one-bedroom units, with 24 of the units at 60% AMI with projected rents of \$687.00/month with the remaining unit being marketed at 30% AMI with a projected rent of \$308.00/month. Average square footage of the one bedroom unit is 750 square feet and all units will include required appliances (stove, refrigerator, dishwasher, washer and dryer and microwave).

There are 29 two-bedroom units with 26 of the units available to households earning 60% AMI with projected rents of \$783.00/month, 1 unit being marketed at 50% AMI with a projected rent of \$751.00/month and the remaining two units being marketed at 30% AMI with projected rents of \$364.00/month. The average square footage of the two bedroom unit is 1000 square feet.

There are 4 three-bedroom units with 3 of the units available to households earning 60% AMI with projected rents of \$941.00/month and 1 unit at 30% AMI with a projected rent of \$352.00/month. The average square footage of the three bedroom unit is 1350 square feet. The property will be managed by McCormack Ragan, the firm that also manages Phase I.

Since the approval of the tax credit application, staff has continued its efforts to move the redevelopment of the Phase II site forward. On March 21, 2016, City Council approved a Community Development Block Grant Agreement (CDBG) in the amount of \$4,459,729 with McCormack Baron Salazar Development Inc. and D.H. Griffin Infrastructure Inc. to provide the site preparation and infrastructure improvements for the 85 unit development. Work is scheduled to begin by April 25, 2016 with a projected turnover date of 8 building pads by August of 2016 and the final four building pads to be delivered by December of 2016. The delivery of the pads in August of 2016 will allow for the general contractor to begin work on the vertical construction with an anticipated project completion date of October of 2017. The placed in service date for the award of the tax credits is December 31, 2017.

Southside Revitalization Phase II Limited Partnership has selected Weaver Cooke Construction, Inc. as the General Contractor for the project and is currently having negotiations with the intent of establishing a Guaranteed Maximum Price (GMP) of \$11,000,000.00 or less, as long as the changes do not adversely affect the project. The GMP

reflects the amount included in the tax credit application submitted to and approved by North Carolina Housing Finance Agency. Total estimated cost of the second phase to include construction and soft costs is \$14,945,537.00.

Issues/Analysis

On June 30, 2015, Southside Revitalization Phase II Limited Partnership was awarded \$805,846.00 in tax credits annually for a period of 10 years which equates to approximately \$8,135,226.00 in equity or better than half of the project cost. The award of tax credits establishes a completion or "in-service" date of December 31, 2017. The 85 units must be issued a certificate of occupancy from the City/County Building Inspections department by the placed in-service date. To ensure that the deadline is met and that activities continue, the loan documents need to be executed between the City and the Limited Partnership, so construction can begin as soon as the site is prepared for the construction of the 12 buildings.

Alternatives

The City Council could elect to not approve the loan documents with Southside Revitalization Phase II Limited Partnership. Without an agreement on the mutual commitments between the City and the Limited Partnership, the project would not move forward and the tax credits would be forfeited as tax credits are awarded to a developer on a competitive point basis, with additional points awarded for City participation. It should also be noted that if the City chose not to move forward with this project with the Limited Partnership, it would also have an impact on the commitment of HOME funds allocated to the City. If not committed in a timely manner, FY 2014 HOME funding may require a repayment to the Department of Housing and Urban Development or allocation to another project.

Financial Impact

On May 4, 2015, City Council voted to authorize the City Manager to issue a commitment letter to Southside Revitalization Phase II Limited Partnership to provide up to \$3,800,000 in loan funds for the second phase of the mixed-income rental development. The total cost of the 85 unit multi-family development is estimated at \$14,945,537.00 and will be funded as follows:

Source	Permanent	Per Unit
1st Mortgage: US Bank	\$3,010,310	\$35,415
2nd Mortgage: City of Durham	\$3,800,000	\$44,706
Tax Credit Equity: US Bank	\$8,135,226	\$95,709
TOTAL	\$14,935,537	\$175,830

The City will provide a HOME Investment Partnership Construction/Permanent loan to the Southside Revitalization Phase II Limited Partnership in an amount up to \$3,300,000. Additionally, City Council approved a predevelopment loan in September of 2014 in the amount of \$500,000 to allow for predevelopment activities to begin. The total loan to the Southside Revitalization Phase II Limited Partnership is \$3,800,000. The predevelopment loan provided design services for the private phase of the Phase II development to include architectural, civil, mechanical, plumbing and electrical of the 85 units. It also included water and sewer impact fees, legal fees and payment of the North Carolina Housing Finance agency allocation fee. After the Phase II construction period, the loan will be repaid from 60% of net cash flow annually at an interest rate of 2% over a 45 year term. Based on the current pro forma, the annual repayment will be \$38,746 and will remain constant or increase slightly

over the term of the loan (summary pro forma attached). Although the City will receive repayment as described above, it should be noted that the balance of the loan goes up every year as the cash flow to the City is less than the accrual interest. The HOME loan will be funded with the below annual allocations with the FY18 funding which is projected to be received in August of 2017. The Limited Partnership will obtain a bridge loan in the amount of \$524,465 to fund the project in the interval.

Source	FY15	FY16	FY17	FY18	Total
HOME	\$1,012,623	\$1,012,623	\$750,289	\$524,465	\$3,300,000
BOND		\$500,000			\$500,000
Total	\$1,012,623	\$1,512,623	\$750,289	\$524,465	\$3,800,000

Southside Revitalization Phase II Limited Partnership was awarded \$847,861 of annual federal tax credits in August of 2015. The MDA allows for MBS to retain a 5% partnership in the ownership which makes available to the project \$805,468 annually in federal tax credits ($\$847,861 \times 95\% = \$805,468$). The Southside Revitalization Phase II Limited Partnership will continue its relationship from Phase I with U.S. Bancorp Community Development Corporation to provide equity pricing and the construction and permanent first mortgage financing for the Phase II effort. U.S. Bank will provide federal credit pricing in the amount of \$1.010/credit for an equity yield of \$8,135,226 for the construction of the 85 units. Along with the equity yield, the first mortgage financing and the City loan, funding will be available to construct the second phase of the Lofts at Southside.

SDBE Summary

Goals of 11% M/SDBE and 7% W/SDBE were established for the Southside Phase II construction effort. Weaver Cooke, the general contractor for the project has scheduled a public information session for May 4, 2016 to solicit subcontractors for the project.